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ABSTRACT

This report discusses the dispute in Arizona over the 1967 legislation regulating educational finance and offers alternatives to that legislation. The document describes factors and issues relevant to an understanding of the present dispute, defines accepted principles of educational finance, provides factual information about Arizona's support of public schools, analyzes the State's support of public education relative to the principles of fiscal operation, and recommends courses of action from which the State may choose. (Author/JF)

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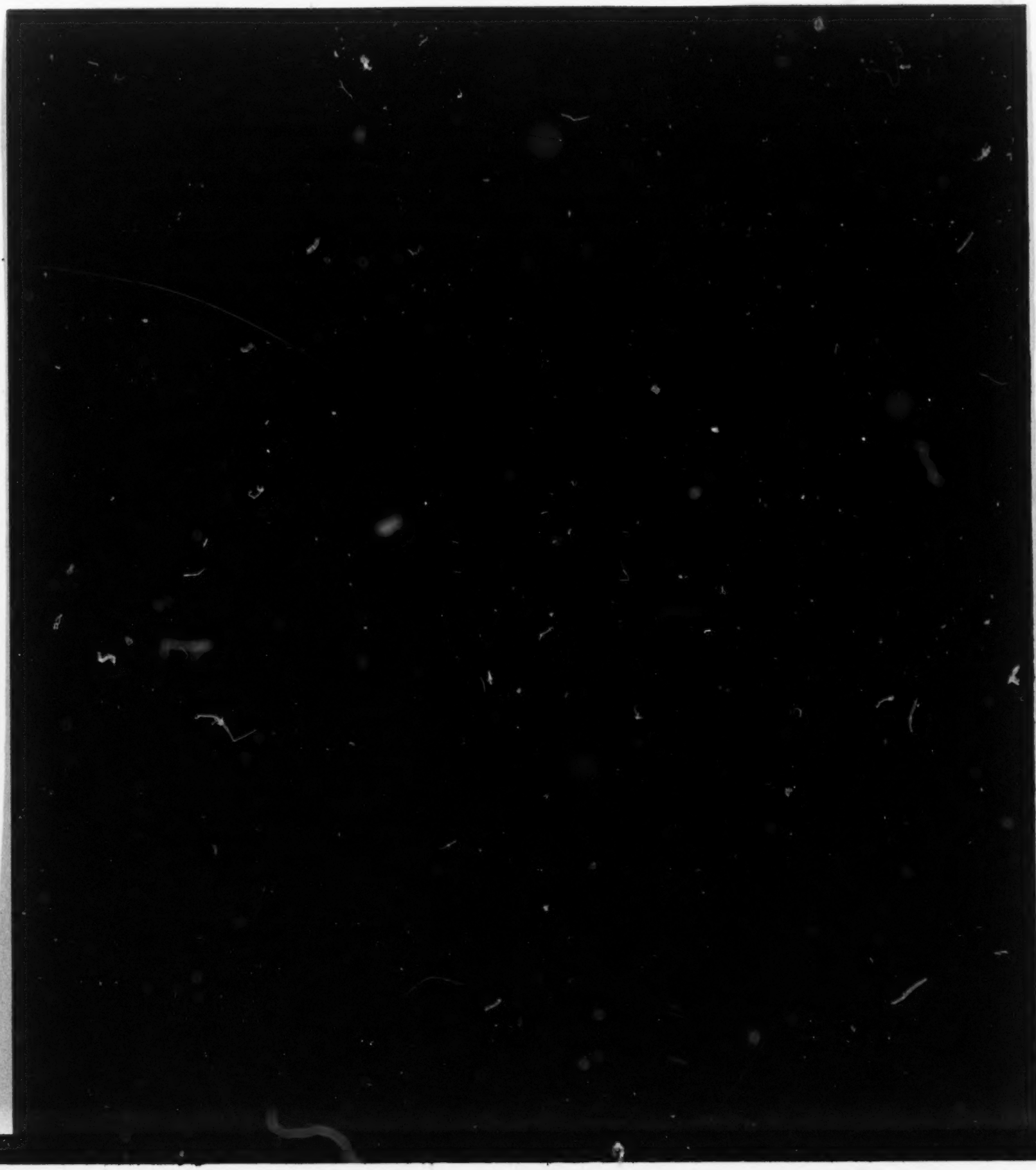

A SPECIAL STUDY

School Finance in Arizona: A State-Local Partnership

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Foreword

Arizona, as all states, is faced with the necessity of examining its school finance formula to assure that it presently provides and will continue to provide equality and excellence in educational opportunity for all the children in the state. Over the years, a number of commendable advances have been achieved in school finance efforts in Arizona at both the local and the state levels, but some elements of the 1967 legislative action now threaten the continued progress of education in the state.

For a number of years, there has been considerable controversy nationwide concerning statutory limitations on the authority of local school boards to raise money to support necessary educational programs. It is difficult to support the extreme positions that all of these limitations are appropriate and necessary or that there should be no limitations under any circumstances. The Commission on Professional Rights and Responsibilities, in the light of this ongoing controversy, welcomed the opportunity to examine the Arizona limitation in depth, in terms of its current and long-term effects.

The Arizona Special Study Report is the latest of 10 statewide studies made by the Commission since 1964, all of which deal with school finance. It is believed that this study will be of national significance, as it deals with such matters as the satisfactory measurement of the educational needs of children in a school district, the relationship of a state support program to the fiscal capacity of the state, and the provision for accountability in a state support program.

Because of the extent of Commission Chairman Nicholas Duff's involvement in the Arizona Special Study both as a Commission member and a Special Committee member, the Commission's Vice-Chairman wrote this Foreword to the report.

The findings and recommendations of the study are commended for careful consideration to the Governor and the legislature of Arizona, to the education profession, and to the citizens of the state.

Helen E. Hay, Vice-Chairman
Commission on Professional Rights and Responsibilities
National Education Association

1. Introduction

THE STUDY REQUEST

On April 18, 1969, the Arizona Education Association (AEA) Delegate Assembly passed a resolution requesting the NEA Commission on Professional Rights and Responsibilities (NEA-PR&R Commission)

> to conduct an immediate study and evaluation . . . of the school finance statutes of Arizona, and in particular of the actual effect of "SB 2" and the 6 percent limitation* on the school districts of the state, and make a carefully documented report and recommendations of such study and such statutory changes as are needed to improve the school finance formula of Arizona schools. . . .

In transmitting the notice of this action to the NEA-PR&R Commission the following week, AEA spokesmen asked for a full study and evaluation of the finance questions in dispute rather than for an accusatory investigation directed at actions of the various parties who had helped to create the present situation.**

Many school district administrators and AEA leaders felt that there were defects in the school finance portion of the new statutes approved by special sessions of the 1967 Arizona legislature. In 1969, AEA and other education groups expressed the desire that certain alternative approaches to the problem be considered. When the resultant proposed legislation died in conference committee, educator reaction was one of deep concern. Lacking a legislative remedy to rectify what were considered gross inequities, some of the education community sought other, more extreme measures. Subsequently, AEA leaders, desiring an objective assessment of the school finance law and its effects on the educational program in the hope that it would alleviate the situation, asked for the NEA-PR&R study.

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* The third special session of the 1967 Arizona legislature passed Senate Bill Number Two, which contained a limitation on school district budgets referred to as the "6 percent limitation." The limitation will be described more fully and analyzed in succeeding chapters.

** Under the Commission's procedures, this type of investigation is known as a Special Study. Its purpose is to define a specific area of concern, to make a detailed analysis of that area, and to offer recommendations. The study is exploratory in nature and differs from an accusatory investigation in that no specific individuals are named and no direct charges are made.

PRELIMINARY INQUIRY

In keeping with Commission procedures, a preliminary inquiry was conducted in Arizona on May 19-21, 1969, to determine if an NEA-PR&R special study would be appropriate. The inquirers interviewed representatives of the AEA and the Arizona School Boards Association, spokesmen from the State Department of Public Instruction and its advisory committee who were involved in the 1969 efforts to change the legislation, and representatives of several school districts. They also analyzed extensive statistical data published by the Arizona Department of Public Instruction, AEA, and other state and national sources.

It appeared to the inquirers, as a result of their preliminary examination, that Arizona should be commended for a number of advances in its school finance efforts on the state and local levels, including some brought about by the changes of the 1967 legislature. They suggested that an NEA special study be authorized to examine such matters as the alleged shortcomings in the 1967 legislation (which, if true, might result in a deterioration in Arizona's educational program) and to analyze the state's support program for schools.

PR&R AUTHORIZATION OF STUDY

At its summer 1969 meeting, the PR&R Commission accepted the recommendation of the preliminary inquiry team and authorized a special study. The authorization statement directed the Special Committee to—

- Report upon the status of the state support program for schools and suggest areas of improvement. including careful study of the implications of such factors as proper equalization, general level of support, and pattern of school district organization.

- Study in detail the effects of the "6 percent" budget limitation, provide documentation of its effects, and suggest any needed remedies.

The Commission authorized the selection of a Special Study Committee, representing a cross-section of the educational community, to be nominated by national educational organizations. The appointed members, who served as independent third parties interested in presenting positive recommendations regarding the matters within the scope of the study, spent three days in Arizona, from September 28 to October 1. At that time, they spoke with educators, school board members, legislators, representatives of the State Department of Public Instruction, and interested citizens. They were assisted by a university consultant in school finance and by staff of the Commission. Members of the study team served without pay.

SCOPE OF STUDY

A considerable portion of this report of the Committee contains description of

and recommendations about particulars of finance formulation which are in dispute. However, the Committee's concern goes beyond the mechanism which causes dollars to flow from one governmental level to another. The primary purpose of educational enactments is to facilitate a proper educational system. Immediately following the Committee's visit to the state, The *Phoenix Gazette*, on October 2, 1969, indicated a proper focus of educational legislation and of the present study when it stated that a thoroughly professional effort would direct major attention to "the real welfare of the children for whom Arizona's school system was created." The Committee recognizes, at the same time, that decisions about the quality of a state's educational program must be made in the context of a variety of factors, including the fiscal capacity of the state and the financial demands of other programs for which the state has responsibility. The most controversial issue—whether the so-called 6 percent limitation should be retained as is, modified, or repealed—should be determined by the same criteria.

As also indicated by the *Gazette*, any proper study must take into consideration factors which made the enactment of the "6 percent" limitation in 1967 appear to be a desirable solution. These factors include the increasing cost of education, the relationship of educational finance in the state's economy, and the controversy between school districts and the legislature during 1967. Also involved is a question of the relative support of education in Arizona and other states, since competition for good teachers is a reality.

As the study progressed, the Committee felt that another relevant issue in the controversy was the legislature's concern that the local school districts did not fully recognize the economic consequences of their acts. The Committee raised the question of how accountability can be distributed to the legislature and the school boards in the shared task of public education.

The intent of this special study report is to identify reasonable alternatives from which the people of Arizona may choose. To this end, the report will attempt to accomplish the following objectives:

- *Describe the factors and issues which are relevant to an understanding of the present dispute.* The second chapter of the report acquaints the reader with demographic and political features of Arizona which have a bearing on the current problem. It further identifies Arizona's school finance efforts in the past, as well as the state's tax structure and assessment practices, and describes the climate preceding the passage of the 1967 legislation and the various positions taken with regard to the legislation. The Committee feels that an understanding of these background factors is a prerequisite to an analysis and judgment of the state's financial problems.

- *Define accepted principles of educational finance.* The purpose of Chapter 3 is to provide the Special Committee and the reader with authoritative standards from which to analyze and judge Arizona's standing in regard to its support of public schools.

- *Provide factual information about Arizona's support of public schools.* Chapters 4 and 5 describe Arizona's support level for public education, the accompanying distribution formula, and the educational impact of the 1967 limitation. This information is necessary in order to use the standards developed in Chapter 3.

- *Analyze the state's support of public education in relation to principles of fiscal operation.* Chapter 6 restates each of the finance principles described in Chapter 3 and analyzes Arizona's performance in each as revealed by the factual information presented in Chapters 4 and 5. Suggestions are made for possible remediation.

- *Recommend courses of action from which the state may choose.* The last chapter of the report suggests ways to bring about a more equitable program for financing education in Arizona in the future and to solve immediate difficulties.

2. Background to the Finance Dispute

In order to understand the present dispute in Arizona and the positions taken by various groups, which will be discussed in this chapter, it is first necessary to be acquainted with certain types of information: relevant demographic and political features of the state; Arizona's school finance effort, tax structure, and assessment practices; and the statutory changes enacted in 1967. A description of these factors follows.

PROFILE OF ARIZONA

The history of Arizona, the nation's sixth largest state, has been one of rapid population growth, which has accelerated considerably since World War II. In the decade from 1940 to 1950, the state experienced a 50.1 percent increase in population, while the 1960 census revealed a further 73.7 percent gain over 1950. It is estimated that the last nine years have produced still another 33 percent gain. Current estimates show a total population of 1,741,000 in 1969. Census figures indicate that in 1960, 89.9 percent of Arizona's population was white; 6.4 percent Indian; 3.3 percent Negro; and 0.4 percent classified as "other." Census figures of 1960 also show that 14.9 percent of Arizona's residents had Spanish surnames—an indication of the number of Mexican-Americans among the state's population—although this figure may not accurately reflect the total number of Mexican-Americans in Arizona.[1]

The rapid expansion of Arizona's population has been coupled with a shift from rural to urban living. The 55.5 percent of the state's population living in urban areas in 1960 had increased in 1967 to 72.3 percent.[2] The growth of the two largest urban centers, Phoenix and Tucson, reflects this movement. Phoenix' present population of more than 500,000 represents an increase of about 25 percent over 1960's figures; Tucson's increase for the same period is estimated at around 22 percent, giving the city a population of over 250,000.[3] The largest town outside of the Phoenix and Tucson metropolitan areas (Maricopa and Pima Counties) is Yuma, with an estimated population last year of 30,500.[4]

An increase in manufacturing employment has accompanied the growth of the cities. In the decade from 1958 to 1968, Arizona ranked first in rate of increase among the states in manufacturing employment, with a gain of 104 percent.[5] During the same period, it ranked second in growth of nonagricultural employment, with an increase of 100 percent.[6]

A combination of factors—the rapid population growth of the metropolitan areas (a result in part of an influx of retired people from other states) and the effect of legislative reapportionment—has led to a shift in political power to the urban and suburban areas. This shift has been accompanied, in decisions regarding apportionment of the tax dollar, by an increased emphasis on certain governmental services and a relative de-emphasis of others. Arizona, like other states, has had to decide which governmental services hold the highest priority. In choosing among the alternatives, the state has given high priority to such services as higher education, public schools, highways, and police protection; as a result, Arizona ranks high in these areas in comparison with other states. The state ranks comparatively low, however, in such areas as public welfare and health and hospitals.[7]

HISTORY OF SCHOOL FINANCE EFFORTS

The pattern of financing schools in Arizona has evolved in a manner similar to that of many other states. Since statehood in 1912, Arizona has relied heavily on local property taxes to provide revenue for schools. Over the years, because of the insistence of citizens and educators, state aid has gradually increased and efforts at equalization have begun. Some of the revenue for these measures has come from the sales tax and some from slight increases in state property tax and income tax.

As early as 1940, the supporters of education successfully went to the public through the initiative process to increase state support for public schools. The initiative measure increased state aid from $25 to $65 per child on the elementary level and to $95 on the high school level. In 1947, the legislature increased state aid for elementary schools to $95 per child, making elementary aid equal to that for high school students. At the same time, it established a county aid system of $20 per child, whether elementary or secondary. Other significant gains were made in 1955 when state aid rose to $127 per child with $30.50 per child in county aid, and in 1959 when state aid was increased to $170 per child and a program of equalization within counties received approval. In the 1959 session, however, the legislature imposed a 6 percent limitation upon budget increases for school districts. Accordingly, if a local school board wished to exceed a 6 percent increase in its budget, it was required to go to a county board of supervisors for permission to exceed the limitation. Some interpreted this requirement primarily as a device for forcing the school board to disclose its proposed budget expenditures to the board of supervisors and the public, and believed that the

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supervisors would not actually examine the proposed expenditures carefully. Others interpreted it as an actual limitation. The first interpretation proved to be correct, since the boards of supervisors rarely refused the request of a board of education to exceed the limitation. The situation gave rise to complaints of "rubber-stamping" of school board requests.

State Aid Equalization Efforts

During the years that state aid for education was being increased, supporters of the schools were also trying to bring about statewide equalization (the provision of larger amounts of state aid for districts with lower fiscal capacity). There were flagrant inequities in many parts of the state. In the metropolitan Phoenix area, for example, one elementary school district with thousands of children (a substantial portion of them from disadvantaged families) and a limited tax base was hard put to sustain an adequate education program. Yet, only a few blocks away in the same city, there were districts able to support strong education programs while holding property taxes at reasonable levels, simply because business and industry had chosen to locate in those districts rather than in the former ones.

The most frequently cited case of inequitable taxation in Arizona occurred in Greenlee County, in the eastern part of the state, where there are two adjoining copper towns—one on the mountainside and the other in a canyon at the foot of the mountain. Because the mine provided almost all the tax money needed to run the school district, the tax rate in the mountainside town was around 65c per $100 of assessed value. In the town below, the rate was more than $13 per $100 of assessed value for citizens who worked in the same industry but lived outside the district limits in which the mine was located.

In 1964, education forces were able to pass an initiative measure changing the constitution to permit state aid for equalization. In the succeeding legislature, the first statewide equalization program was enacted, providing for a $12 million equalization effort and increasing the flat grant state aid. Although the amount of equalization was not great, this measure brought some relief to the poorest districts.

STATE TAX STRUCTURE AND ASSESSMENT PRACTICES

At the same time, efforts to deal with property assessment laws and practices were causing a change in the state's total financial picture. Although state law through the early 1960's had required the assessment of most property at its cash value, this was not being done. In 1963, an Arizona court ruled that the Southern Pacific Railroad was being assessed at a ratio in excess of that applied to other properties. This decision forced the Arizona legislature into a property tax reappraisal program. The legislature of that year authorized a four-year study of the entire tax appraisal situation. The study culminated in many of the actions taken in special sessions of the 1967 legislature.

CLIMATE FOR CHANGE

By 1967, proponents of stricter school budget limitations were expressing dissatisfaction about expenditures and support for education. They were making these kinds of public statements:

- Taxpayers lack confidence in school boards to keep school taxes at a reasonable level.
- Taxpayers and taxpayer groups resent mounting educational costs.
- The 1959 law giving county boards of supervisors the responsibility of approving or disapproving school budget increases of over 6 percent is not protecting the taxpayer. The supervisors "rubber-stamp" any school board request.
- School costs are increasing more rapidly than the tax base, particularly the property tax base.
- School administrators and teachers lack appreciation for the efforts Arizona taxpayers make to pay satisfactory teacher salaries and support adequate educational programs.
- The continuous struggle in the legislature every other year over state school support and the basis of state support distribution shows that educators are never satisfied.
- With the increase permitted, schools will be receiving sufficient tax revenue, and good education can be provided if the money is efficiently and wisely spent.

School board members and educators held other points of view and therefore denied many of these allegations and had replies to others. The debate then went into the press, where headlines in the summer and fall of 1967 ran: "Schools Called Tax Hogs by Reform Group" (actually a citizens' advisory subcommittee to the legislature); " 'Clamp' Plan on Schools Takes Shape"; "Educators Attack School Funds Plan"; "Lawmaker vs. Teachers"; "Governor Says Educators Block Legislative Work"; " 'Legislators Ignoring Us,' Teachers Say."

This atmosphere, which began to develop during the first of the three special sessions of the legislature in 1967, reached its height during the last of the sessions.

THE 1967 LEGISLATION

The outcome of the three special sessions of the legislature in 1967 was the passing of legislation which had great impact upon the total tax structure, school finance, and school budgeting practices in the state. Major changes were (a) revision and statewide application of assessment ratios for different property classes; (b) changes in tax rates on personal and corporate income, selected portions of the sales tax, luxury taxes, and cigarette and alcoholic beverage taxes; (c) an increase in state aid to school districts, including new sources of school revenues, along with a corresponding reduction in local revenues; and (d) new requirements on school budgeting practices.

Some of the effects of the legislation have already become apparent. In 1967, property taxes levied by all units of government totaled $257,364,223. In 1968, this amount decreased to $252,533,389 but increased in 1969 to $276,481,069. During the same period, the assessed value of property increased from $2,351,583,270 in 1967 to $2,599,066,421 in 1968 and $2,656,536,168 in 1969. The reported average tax rate for the state declined from $10.94 per $100 of assessed valuation in 1967 to $9.72 in 1968. It increased to $10.41 in 1969, well above the 1968 rate but still below the 1967 level.[8]

A significant difference has been seen in the apportionment of state and local aid for education. The state's share of total school revenue jumped from $84.1 million in 1967-68 (or 34.6 percent of the total) to $153.3 million in 1968-69 (or 56.6 percent of the total), and the local district's share dropped from approximately $136.9 million to $95.9 million.[9] During the first year of operation of the new law, total state and local expenditures for schools continued to increase at a rate comparable to the years immediately prior to the tax restructure; they did not increase dramatically. Federal contributions were 9.1 percent of the revenue for public schools in 1967-68 and 8.0 percent in 1968-69.[10] These actions will be explained in greater detail in Chapter 4.

The effects of the school district budget limitation portion of the 1967 legislation will be discussed in detail in Chapters 4 and 5. It is variously known as Senate Bill No. 2 (SB 2), the "6 percent" limitation, the so-called 6 percent limitation, the 1967 budget limitation, and the budget limitation check.

THE DISPUTE REGARDING THE 1967 LEGISLATION

The lessened emphasis upon the property tax and the greater amount of state aid for schools, which were a part of the total restructuring, were generally applauded by all taxpayers, but the school budget limitation raised great controversy. Many legislative leaders and proponents of the limitation acknowledged that its purpose was to prevent school boards from increasing local property tax levies and in this manner cancelling out the benefits of the legislated local property tax decrease. They further contended that they had helped schools by increasing the state's portion of total support from about one-third to approximately one-half of total school expenditures.

The legislature's opponents, however, generally resisted the school budget limitation. They claimed that the amount of increase in school district revenue would be about the same as previously, but that it would come from a different source. They further claimed that the increase would fail to keep pace with the cost of inflation. Another rationale used for objection to the budget limitation was the cost in terms of time, effort, and money of meeting the requirement which calls for a vote of the property owners to exceed the limitation. School administrators and boards of education recognized that failure of a vote to override the budget limitation would mean a return to the previous year's budgeted amount per pupil

plus a fixed dollar amount permitted without a vote. They also realized that, even if the levy were successful, the amount approved by the voters would not be retained as the new base for the following year. They stated that they would be reluctant to submit a request to the voters to exceed the limitation for fear of having to face similar elections every year thereafter and because of the uncertainty of being able to continue new programs that exceeded the budget limitation—or even existing programs as the limitation became progressively more severe. Another major drawback seen by opponents of the limitation was that it includes such items as pupil transportation, fixed charges, and self-supporting programs, all of which receive little or no state support and are largely influenced by factors outside the control of the local board of education.

In summary, opponents of the "6 percent" limitation felt that it accomplished a tax shift from local school district property taxes to state taxes, which brought about a more realistic partnership between the state and the local school district. They believed, however, that the accompanying strict budget limitation hindered the ability of educators and patrons of the schools to properly discharge their local responsibility in the education of their children.

EFFORTS TO AMEND THE 1967 LEGISLATION

Implementation of the tax package changes and the new budget restrictions began on July 1, 1968. Immediately, education supporters began to prepare suggested revisions for consideration of the 1969 legislature. A State Department of Public Instruction advisory committee, formed to suggest changes in the statute, presented its proposals. The proposals met with strong opposition from the legislative leadership and the press, who claimed that schools were attempting to subvert the changes in the tax structure which had been voted in 1967. The Department of Public Instruction advisory committee did not attempt to change the two fundamental provisions of the 1967 legislation: the "6 percent" ceiling on budget increases and the requirement that a budget approval election be held if the "6 percent" ceiling were to be exceeded. Instead, the bill (SB 87), incorporating their proposals, included four less basic changes:

1. That districts be permitted to increase their budgets by an actual 6 percent or have the option to increase 6 percent over the state average operational cost per pupil. (This would eliminate the $30.00 or $31.80 per pupil increase limitation for elementary districts and $40.00 or $42.40 for high schools, as explained in Chapter 4.)

2. That districts having a substantial decrease in actual average daily attendance (ADA) below estimated ADA be permitted to add 2 percent or the cost of 50 pupils, whichever is greater, so as to limit the amount of reduction in their budgeted operational funds for the year.

3. That the 6 percent budget limit be rendered not applicable to—

a. That part of the program costs financed by other than state or local tax funds.

b. Transportation costs which are in excess of the state average, as determined by the second year preceding the current year.

c. Increases in fixed charges, the determination of which are beyond control of the local district (such as industrial insurance premiums, social security premiums, state retirement payments).

4. That a vote of a district's taxpayers to exceed the 6 percent in a given year establish the per pupil cost thereby authorized as the new base for calculation of the 6 percent increase permitted for the following year.

The bill cleared the Senate in a somewhat revised form, still allowing a district to make its increased budget, which had been approved by election, the new base for the following year. It also permitted the districts to increase budgets 6 percent over the state's average per pupil cost. The latter provision was included to assist districts which had been spending less than the state average. The House did not accept the Senate-passed version of the bill. It claimed that the 1967 legislation was preferred, that not enough data had been gathered upon its effects, and that the voters had supported the legislature's 1967 action by reelecting most of them. The House then passed a form of the bill which the Senate would not accept. The differences centered upon a new provision raising the minimum eligibility level for state assistance from a local tax rate of 10¢ to $1.50. Another difference arose over the amount of state aid for those few elementary school districts which also educated high school students. The bill was sent to conference committee, where consensus could not be reached, and it subsequently died.

SUMMARY

From the information and data presented in this chapter, it is evident that Arizonans have struggled over the years to obtain increased state support for public education. Gains have been made periodically since 1940, including the allocation in 1964 of state funds for equalization. Equally evident is the recent concern for the ever-increasing tax burden and the demand that it be lightened, especially in the area of local property taxation. Political leaders have responded to this concern with the passing of the 1967 legislation, which incorporates a de-emphasis of the property tax as a source of state aid while increasing the amount of state aid for schools. At the same time, it imposes a limitation on the capacity of local boards to tax to increase school expenditures beyond a certain point without voter approval.

The current dispute relates to the state support formula in general and to the "6 percent" limitation in particular. The purpose of the remainder of this report will be to analyze these factors and to make recommendations regarding them.

3. Principles of School Finance

In a review of the fiscal and educational problems of any state, it is desirable to set forth standards or criteria against which the state program can be judged. This chapter will suggest fundamental principles which are recognized by educational finance authorities. The reader should understand that many other principles of school finance exist which are not as directly applicable to the Arizona situation and, therefore, are not presented or considered in this document. The following principles appear to be directly related to financing education in Arizona.

An important concept inherent in the principles is that the purpose of any sound state support program is to guarantee an equal educational opportunity for all the boys and girls in the state, an opportunity of the highest quality possible in terms of the state's ability to pay. The principles are accepted by the Committee as authoritative standards and are presented at this point so that the reader may understand the basis on which the Committee made the analyses and judgments contained in the remainder of the report.

Principle I

A sound state support program is based upon a satisfactory measurement of the educational needs of students in each school district.

Rationale

Early measures of the educational responsibility of school districts were the number of children in the district, the school enrollment, or the average daily attendance (ADA). These measures are no longer deemed adequate. Some pupils have special needs, interests, and abilities, and so require special services. Measurement of local educational responsibility must recognize, therefore, that districts with the same number of pupils may have varying educational responsibility because of the necessity for differentiated educational programs. A combination of these factors, or a summing of the composite responsibility for education of all children in the district, is a much more adequate base for measuring a district's responsibility than a mere counting of heads or utilization of related per pupil measures.

Principle II

A sound state support program measures the financial ability of each district in an equitable manner.

Rationale

A state support program must be based on equitable measures of local ability to pay taxes. If fiscal capacity is to be measured by local property valuation, as it is in most states, equal ability to pay can only be approached by translating local assessed valuation into uniform measures of equalized value.

There is some evidence that fiscal capacity can be better measured by net income or net worth (total assets of individuals, including property holdings) or some combination of the two. However, until these measures are researched more completely and are field tested, sound equalized value of property seems to be the most equitable available base.

Principle III

A sound state support program provides adequate incentives for each district to attain the most efficient organization possible.

Rationale

This concept recognizes that local control and quality education programs are best accomplished by developing strong, well-organized, efficient administrative units to replace small, weak, and inefficient districts. Experience has shown that the unit district containing all grades, kindergarten through twelve, under control of one board of education, is the most desirable arrangement. This type of organization eliminates the necessity of employing several chief administrators. Instead, those employed may be used effectively in the area of their special expertise. Such an organization also provides for flexibility and coordination of both the financial and the educational programs.

Principle IV

A sound state support program provides incentives to improve education.

Rationale

This concept implies that specific provisions should be made in the state support program to reward districts improving their educational program. A state support program which provides the same level of aid for all districts, whether they attain minimum standards or provide an excellent program, does not generate superior education. All districts should be encouraged to conduct innovative programs, with the state serving as a partner in supporting such programs. The sharing must be computed in a manner so that all districts will be encouraged to experiment and innovate to develop superior programs. As in business, a school district that does not improve its operation and program actually becomes poorer educationally year by year, as other districts (and other states) continue to improve their educational programs.

Principle V

A sound state support program recognizes that the state should share in the cost of all essential ancillary educational services which are provided by local school districts.

Rationale

This concept is basic to the operation of any state support program; it is inherent in the philosophy that education is a state function. An adequate and rising level of educational opportunity is not feasible without state participation in the financing of such essential ancillary educational services as transportation and school buildings.

Principle VI

A sound state support program is flexible. Changing costs of education are recognized. The formula does not become outdated, necessitating periodical abrupt revisions.

Rationale

A state support model should have built-in flexibility and should be capable of meeting changing costs. The support model should automatically operate to compensate for increases or decreases in the cost of education. This will assure that the state will pay a given percent of the costs of education, regardless of increasing or decreasing costs. Such a provision affords a true partnership of the state and the local district in the financing of education.

Principle VII

A sound state support program provides a level of support that is reasonably related to the fiscal capacity of the state.

Rationale

This concept recognizes the financial ability of the state. It implies that the money provided to support schools should be no lower than the relative fiscal capacity of the state; nor should it result in a position of bankruptcy.

Principle VIII

A sound state support program utilizes sources of revenue that are productive and equitable.

Rationale

This criterion rejects the use of revenue sources that are not productive or equitable. It implies that the state will analyze sources of revenue for school support and will select those which are productive of revenue and guarantee equity. Since there are only four major sources of tax revenue which are productive and which, if used in the proper mix, provide some degree of equitability, these sources must be used in a balanced program. These sources are (a) taxation of income,

(b) taxation on the transfer of property (sales tax), (c) taxation of property, and (d) taxation of oil, metal, and mineral resources.

Principle IX

A sound state support program provides accountability—each unit of government determines how much of the cost of the program it will support.

Rationale

Each unit of government should be allowed to determine the amount of money it is willing to spend. In representative government, this determination is exercised by the elected representatives. In the state, it is exercised by the legislature and the governor, and in school districts by the school board. To make the principle operative, the legislature sets the dollar amount per unit which it will provide; the school board determines the amount it will raise. Each group is ultimately accountable to the people who can vote their representatives out of office if they are dissatisfied with their decisions.

The Special Committee believes that the principles described above might reasonably be used to judge any state educational support program. In the following chapters, data and information are presented relative to Arizona's support level for public schools and its distribution formula. This information will be analyzed in relation to the principles described above and conclusions made regarding Arizona's standing in support of education.

4. Education Support Level and Distribution Formula

The principles which have just been described cannot be applied to Arizona until certain types of information are understood. The intent of this chapter is to discuss such key issues as the status of Arizona's financing of its schools, the formula it has developed for distribution of state funds for education, and details of the 1967 law which are in dispute.

BENEFICIAL EFFECTS OF THE 1967 LEGISLATION

The 1967 tax, assessment, and school finance legislation had several commendable results:

1. The state's share of total elementary and secondary expenditures rose from $84.1 million in 1967-68 to $153.3 million in 1968-69 (a movement from 34.6 percent of total expenditures to 56.6 percent, placing Arizona eleventh in a state-by-state comparison of this indicator).[11] This increase, if accompanied by sound equalization provisions in the formula, would allow greater capacity for equal educational opportunity within all the school districts in the state.

2. The tax burden was distributed more evenly across the population of the state, reducing inequities produced by unequal tax bases.

3. The total expenditures for education increased by 11.4 percent from 1967-68 to 1968-69.[12] Most of the increase was due to increased enrollment; the balance to a higher expenditure per pupil. Estimated current expenditures per pupil in ADA increased only by a very small amount: from $687 in 1967-68 to $698 in 1968-69.[13] Current expenditures per pupil in ADA in 1969-70 are estimated at $734, making Arizona twenty-fourth nationally.[14]

4. Assessment practices were standardized. Prior to this time, the rate was statutorily set at full cash value, but the actual assessment varied widely from county to county. The new statute set a statewide percentage of cash value for different classes of property as follows: homes were assessed at 18 percent of cash value, small industries and businesses at 25 percent, utilities at 40 percent, and heavy industry and mines at 60 percent. Fulfillment of the promise of this workable

plan depends upon the actions of the county assessors and successful enforcement of the law by the responsible state commission. To date, there has not been enough experience to make a firm statement on the quality of this application. In addition, the concept of different rates for different classes of property is presently being challenged in the courts.

ANALYSIS AND COMPARISON OF ARIZONA'S FINANCIAL EFFORT AND EXPENDITURES

Relationship Between Expenditures and the Quality of Education

Measurement of the support of education in any state may be made in a variety of ways. The two most commonly used criteria are—

1. The amount spent in relation to the ability of the state (financial effort).

2. The amount spent in dollars to support various aspects of the educational program, without regard to effort.

There is an implied relationship in each of these criteria between the quality of education and the amount of money spent for education. The Committee believes this to be true. Such information as is available in school finance literature appears to indicate such a relationship.

A 1963 publication by economist Harold Clark attempted not only to ascertain whether a larger expenditure of money produced a better quality education, but also to analyze the factors which produced better education, as shown in experimental studies. From his analysis of previous studies, he concluded:

> Innumerable studies have examined the expenditures on education. Many studies have attempted to estimate the quality of the schools. On the average it has been discovered that the better schools do spend more money per pupil than the poorer schools.[15]

The improvement of education will depend on the provision of adequate funds for the implementation of programs advanced by school officials. While money alone will not guarantee improvement, the denial of funds will assuredly limit the quality of education.

Ability and Effort Factors in Arizona

The measurement of effort presupposes the identification of the fiscal ability of a state. Fiscal capacity has been defined as (a) the income of a state and (b) the state's property valuation (a rough index of wealth). These indices, while imperfect in many ways, do provide some measures of ability.

In 1968, Arizona ranked thirty-second in per capita personal income, with a figure of $3,014. (The national average was $3,403.)[16] In per capita property value for 1968, however, the state ranked above the national average (twentieth with a figure of $9,227 as compared to the U.S. average of $8,048).[17]

When Arizona's effort to support education is measured by the percent of per-

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sonal income devoted to educational expenditures, the state attains a high rank. Arizona ranks fifth among the states in state and local governmental expenditures for *all education* in 1966-67 as a percent of personal income in 1967.[18] In total current expenditures for elementary and secondary schools in 1967-68 as a percent of personal income in 1967, Arizona tied with three other states which divided the ranks of sixth, seventh, eighth, and ninth.*, [19]

However, when valuation of property, adjusted to reflect the sales value, is used as the index of fiscal capacity, Arizona ranked twenty-first in 1966 in the percent that state and local tax collections were of the sales value of property, expressed on a per capita basis.[20] In the same year, Arizona ranked twenty-sixth in the percent that expenditures for local schools were of the sales value of property expressed on a per capita basis.[21] In the percent that local school expenditures per pupil were of the sales value of property per capita, Arizona ranked twenty-third.[22]

The rank of Arizona on each of the indices of effort to support education is summarized in Table 1.

TABLE 1—ARIZONA'S RANK IN EDUCATIONAL SUPPORT EFFORT

	Rank
Effort as Measured by Income	
Percent of personal income to support all education (state and local).....	5
Total current expenditures for elementary and secondary schools as a percent of personal income.....	7.5
Effort as Measured by Sales Value of Property	
Percent state and local tax collections are of sales value of property.....	21
Percent expenditures for local schools are of sales value of property.....	26
Percent per pupil expenditures in local schools are of sales value of property per capita.....	23

Another view of educational support is the dollar expenditure for education without regard to the financial ability of the state. The argument for viewing educational support in this manner is that children should not be penalized for living in a state with low financial ability and that even the poorest state can afford to support a good educational program. In the belief that Arizona is financially able to support good education, direct comparisons of the amount spent for various educational purposes are made. These comparisons, with Arizona's rank for 1968-69, are shown in tabular form below.

* Based on recent estimates of personal income for 1968 and estimated current expenditures for elementary and secondary schools for 1968-69, Arizona now ranks twelfth in total current expenditures as a percent of personal income. This represents a significant drop in a one-year period.

TABLE 2—SELECTED ITEMS OF EDUCATIONAL EXPENDITURES, 1968-69[23]

Criterion	*Arizona*	*Rank*
Current expenditure per pupil in average daily membership..	$ 641	18
Percent of increase in current expenditure 1958-59 to 1968-69	92.9%	23
Pupil-teacher ratio in public elementary and secondary schools, fall 1968 (fiftieth state has largest ratio).....	23.5	31
Estimated average salaries of elementary teachers.....	$8,025	12
Estimated average salaries of secondary teachers.....	$8,750	7
Estimated average salaries of all teachers.....	$8,240	11
Percent of increase in instructional salaries 1958-59 to 1968-69	59.2%	36
Percent of increase in instructional salaries 1967-68 to 1968-69	8 %	14.5

Unfortunately, data on the per capita total expenditure of state and local governments for all education are not yet available for 1968-69. In the year 1966-67, Arizona ranked eleventh in this regard.[24] For the same year, Arizona ranked nineteenth in per capita state and local expenditures for local schools, including the amount spent for capital outlay.[25]

It is noted that in the above comparisons, Arizona's rank is not nearly as high as the rank based on financial effort when financial ability is measured by personal income. They are more nearly comparable in rank to several items attained by Arizona when ability is measured by sales value of property.

To many individuals, both those working in education and interested citizens, a state's support of education over a period of years is much more important than that for any single year. Thus, two measures are reviewed in a 1958-59 to 1968-69 comparison. In the percent of increase in estimated current expenditures per pupil in ADA during this period, Arizona ranked twenty-third, with an increase less than the national average (U.S., 94.3 percent increase; Arizona, 92.9 percent increase). In the percent of increase in instructional staff salaries during this same period, Arizona was again below the national average (U.S., 65 percent increase; Arizona, 59.2 percent increase). In this respect, Arizona ranked thirty-sixth among the states.[26] This trend should be of deep concern.

STATE SUPPORT FORMULA*

Also relevant to a discussion of Arizona's finance status is the way in which the state disburses aid to local school districts. State financial assistance for public education in Arizona assumes two basic forms: general state aid and special state aid.

General state aid consists of three funding plans: (a) a basic grant of $182.50

* See Appendix II for a more detailed description.

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per pupil to be apportioned each year to school districts (via the County School Fund) by the State Department of Public Instruction for each common and high school pupil in average daily attendance for the first six months of the year in which the apportionment is made; (b) financial assistance to qualifying school districts, based on two rates: one for elementary pupils and the other for high school pupils*; and (c) an equalization supplement to "poorer" school districts, determined by two levels of equalization aid.

Special state aid provides specific dollar amounts to school districts for educating (a) homebound pupils at the rate of $100 per pupil in ADA; (b) handicapped pupils at the rate of $190 per pupil in ADA, as well as a special county aid at the rate of $10 per pupil in ADA; (c) trainable retarded pupils at the rate of $590 per pupil in ADA, plus a special county aid at the rate of $10 per pupil in ADA; and (d) bilingual pupils at the rate of $25 per eligible pupil in ADA.

In addition, state financial aid is available to school districts which educate deaf and blind pupils, children of employees of certain state institutions, and night school students.

A relatively small amount of money originating at the state level, derived from endowment earnings on the permanent school fund, is distributed to the 14 county school funds and from these to the school districts.

Actual disbursements of state funds at the different levels were apportioned in 1968-69 as follows: basic grant, 44.2 percent; financial assistance, 44.1 percent; state equalization, 7.5 percent; homebound pupils, 0.02 percent; handicapped pupils, 0.61 percent; trainable retarded pupils, 0.26 percent; assistance to school districts, 0.05 percent. (Various miscellaneous items absorbed the remaining 3.26 percent.)[27]

SIX PERCENT LIMITATION

Description

As indicated in Chapter 2, a 6 percent limitation upon increases in school district budgets was imposed in 1959. If a school district board of education wished to exceed the limitation, it appealed to the county board of supervisors, which usually granted the request. The 1967 legislation made the following changes in the law:

1. A school district now computes its permissible operational budget for the current fiscal year by adding to the previous year's operational budget a fixed dollar amount of $30.00 or $31.80 per pupil in ADA in elementary school districts and $40.00 or $42.40 per pupil in ADA in high school districts.** (This method of computing the permissible budget became operative in the 1969-70 budget year.

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* Certain provisions for elementary districts which pay tuition to high school districts are included in the law. These provisions make it possible for such districts to receive more aid per elementary pupil than most elementary districts. The inequity of this provision is obvious.

** The $30.00 figure is used in elementary districts with a current expenditure per pupil in ADA of less than $500; other elementary districts use the $31.80 amount. High school districts use the $42.40 figure, unless current expenditures per pupil in ADA are less than $600; in that case, they use the $40.00 figure.

In 1968-69, school districts had the option of using the fixed dollar amount or of increasing the past year's budget by 6 percent; 1968-69 was therefore the only year which allowed a true 6 percent increase under the new statute.) Total operational budget in Arizona is defined as expenditures (regardless of the source of the funds) for administration, instruction, operation and maintenance of school plant, auxiliary agencies (including transportation), fixed charges, and contingencies.

2. When a district wishes to exceed the permissible operational budget, it must request a vote of the real property owners in the school district. If the voters approve, the budget becomes operative. If the voters do not approve, the budget becomes the permissible operational budget described above.

3. In a subsequent year, the permissible operational budget is computed as described in (1) above, without regard to any additional amount which might have been voted in an override election. Any increase over the permissible operational budget must always be approved by a vote of the property owners.

*Analysis**

As has been stated frequently in Arizona and in this report, the "6 percent" limitation as it now exists in Arizona statute is not a true 6 percent limitation. Undoubtedly, the misnomer remains because of the history of a true 6 percent limitation as part of the law from 1959 through 1967.

The inclusion of the $30.00 or $31.80 and $40.00 or $42.40 figures in the law as the new base additive causes the percent of increases to diminish progressively each year. The limitation for the first year varies from 1.98 percent in a school district with a per pupil cost of $1,599.69 to 10.49 percent in a school district with a per pupil cost of $303.34.

Actually, any elementary school district which spends more than $530 per pupil in ADA will have an increase of less than 6 percent. When it is realized that the median Arizona school district spent $616.72 per pupil and the computed average was $591.14 in 1968-69, it is easily apparent that the "6 percent" limitation is not in fact a 6 percent limitation but one much more severe.

At the high school level, the percent of increase permitted per pupil in ADA varied from 1.45 percent in a school district which found it necessary to spend $2,090.31 per pupil in ADA to 7.32 percent in a school district expending $579.77 per pupil in ADA. Only 9 districts out of 77 operating a high school in 1969-70 will be entitled to a full 6 percent increase; any secondary school spending more than $706.67 will not be permitted to increase costs by 6 percent without a vote of the property owners.

This information should be set against the backdrop of facts reported in *School Management*, January 1969, in the Tenth Annual Cost of Education Index. On page

* All of the figures in this section are based on the data contained in Appendix I, which shows the percent of increase permitted under the fixed dollar limitations.

55 of that report, Orlando F. Furno, the developer of the Cost of Education Index, reported:

> The nation's median school district is spending $516 per pupil for Net Current Expenditures (NCE) in1968-69. Last year, the median school district budgeted $465 for exactly the same items. . . .
>
> This year's 11% increase over 1967-68 is easily the steepest 12-month rise since the CEI's base period 1957-59 and it is quite possibly the sharpest school spending rise ever.

With the increase of 11 percent in per pupil expenditures in the nation's median school district, it appears that even a 6 percent limitation would place the schools of Arizona at a disadvantage. When few of Arizona's high schools or elementary districts can increase costs as much as 6 percent without a referendum, the disadvantage would seem to be even more severe. This is of immediate significance in teacher recruitment, since Arizona must compete with the Western states, including California, where teacher salaries are higher.

Other problems are also evident, a major one being the rising cost of living. The following commonly used indices represent an average figure for the last five years:

1. Implicit price deflators for state and local governments.....3.33 percent[28]

2. Bureau of Labor statistics on commodity prices and services (cost of living).....2.96 percent[29]

3. Bureau of Labor statistics on services less rent.....3.30 percent[30]

4. Index of educational inflation developed by *School Management Magazine*.....3.39 percent[31]

The rate of increase in each of these indices for 1969 is significantly higher than the five-year average. The 1969 rate of inflation, for example, based on cost of living index data through October 1969, is likely to be 5.5 percent. These data would imply that more than half of a 6 percent budget increase was absorbed by inflation during the past five-year period, and that an amount approaching 6 percent will be similarly consumed in 1969.

Another difficulty of the so-called 6 percent limitation relates to anticipating the average daily attendance (ADA). Actually, it is impossible to accurately predict the exact growth rate, because of the state's high mobility rate; consequently, either underestimation or overestimation places the school district at a disadvantage in the use of a formula for allocation of funds which is based on ADA.

A comparison of the estimated 1968-69 school year average daily attendance with the cumulative number of students enrolled in Arizona during the same year reveals that 84.2 percent of the cumulative total of pupils enrolled actually were in average daily attendance.[32] (This is a result in part of the large number of elementary districts within a city—if a child moves within the city, he may appear on the cumulative rolls of more than one school district.) Arizona ranked forty-

eighth among the 50 states in ADA as a percent of cumulative enrollment in 1968-69,[33] clearly indicating a difficult situation in which to accurately forecast attendance in many Arizona school districts. If the ADA is overestimated and contractual commitments for the money have been made, adjustments are very difficult, since school districts are held to their contractual agreements regardless of the number of pupils in attendance. If the school district has underestimated its ADA, it is difficult to secure supplementary revenue for additional expenditures after the school year has started, even though additional expenditures are authorized under the limitation. (It is too late to levy additional funds after a March 15 deadline which is included in the law.)

It appears that the limitation does not affect all school districts equally. Districts with four or fewer teachers are exempt from provisions of the limitations. Some affected districts have experienced little or no difficulty. In the affected districts, there appears to be a wide margin in the allowable percent of increase: Certain districts are limited to approximately a 2 percent increase while others are permitted to levy increases of over 10 percent. While the districts spending less money are permitted a higher percent of increase, it is still difficult for some of them to increase their per pupil expenditures to the extent required to support education adequately. The effect of the limitation as it presently operates is to maintain the dollar gap between districts with high per pupil expenditures and those which have, through choice or necessity, been spending less. These districts are unable to raise their expenditure level to that of other districts without a vote of the property taxpayers.

SUMMARY

The legislation enacted in 1967 had four primarily beneficial effects: It increased the state's share of total expenditures for education from approximately one-third to one-half; it distributed the tax burden more equitably; it increased total expenditures for education; and it standardized assessment practices.

As a result of the 1967 legislative enactments, changes have been made in school budget limitation practices. Under the new provisions, the maximum allowable increase is a fixed dollar amount, which can only be exceeded by a vote of the real property owners. Assuming the vote is successful, in computing the base for the following year's budget, a district automatically reverts to what the budget would have been if the fixed dollar allowance had been used. The permitted per pupil amount is based on the total operating budget.

Objections of educators and school boards to the "6 percent" limitation center around the following points. The "6 percent" increase diminishes each year and is thus not a true 6 percent; the limitation does not affect all districts equally; it does not take into account the rising cost of living; it is based on ADA figures, which cannot be predicted accurately; and it maintains the dollar gap between high and low expenditure districts.

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The following chapter will describe other effects of the legislation on school districts in Arizona, with particular reference to such things as staffing and specific programs. Information in this chapter and in Chapter 5 will then be analyzed in relation to the principles of educational finance.

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5. Evaluation of Educational Impact of the 1967 Legislation

The Committee is aware that some persons in Arizona feel that the effect of the 1967 legislation has been essentially positive, while others contend that its effect has been injurious to education. It therefore became very important to the Committee to assess with some objectivity and accuracy just what has taken place in the state during the past two years in terms of the impact on school practice of the law passed in 1967.

During the preliminary inquiry and Special Committee visits which led to this report, considerable evidence and testimony on the question of educational effects of the legislation were presented. It was apparent that all who were interested in school affairs had an opinion on the limitation—some even had evidence on its effect in one or more districts—but no one had valid evidence about the law's effect on the majority of districts to which it applied. Because of the impossibility of speaking to representatives of every district affected by the law and the desirability of obtaining as broad a base of information on individual district reaction as possible, the staff of the Special Committee developed a questionnaire that was sent to the 161 largest districts of the 174 covered by the budget limitation.* In addition, the Special Committee examined other reports and surveys conducted by the Department of Public Instruction, outside agencies, and professional associations.

Of the 161 districts receiving the questionnaire, 110 replied, with a greater proportion of responses coming from the larger districts than from the smaller ones. As a result, although replies were received from 68 percent of the districts queried, the average daily attendance in those districts is approximately 80 percent of the total average daily attendance for the public schools of the state. In the opinion of the Committee, the percentage of responses received and the number of students covered by the responses are sufficient to assure that the analysis of the questionnaire fairly represents the statewide effect of the budget limitation, and that replies

* School districts with less than four teachers were not affected by the limitation and therefore were not contacted. The 13 smallest districts covered by the limitation inadvertently were not contacted. Questionnaires were sent directly to superintendents or heads of districts, who responded to NEA.

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from the other affected districts would not have caused substantially different judgments.

The questionnaire attempted to ascertain which changes in program, staff, personnel-pupil contacts, salary and fringe benefits, or class size were a result of the legislation since its implementation on July 1, 1968. District representatives were asked to specify programs, positions, or practices changed as a result of the legislation and to indicate the extent of change.

The questionnaire asked only for factual data on the number of programs abandoned, curtailed, and so forth; evaluation and grouping of the data into the categories shown in Tables 5 and 6 were made by the Committee.

Since this special study is addressed primarily to the statewide effects of the budget limitation, the results of the questionnaire will be reported by statewide totals. Individual district problems will be mentioned only as they have broad application to statewide conditions.

An analysis of responses to the Special Committee questionnaire revealed that the 1967 legislation had caused school districts to take action on individual programs as follows:

- 23 existing programs were abandoned.
- 137 were curtailed.
- 97 programs were not initiated.
- 7 were initiated.
- 24 existing programs were augmented.

The extent of the curtailment or augmentation and the number of students affected within a district were not measured by the questionnaire.

Table 3 indicates the amount of abandonment of classes or of total programs. The number of students within each district affected by the changes was not part of the data requested in the questionnaire.

TABLE 3—SUMMARY OF DISTRICTS REPORTING ABANDONMENT OF CLASSES OR TOTAL PROGRAMS AS A RESULT OF THE 1967 LEGISLATION

Class or program	*No. of districts taking action*
Kindergartens	4
Remedial reading	4
Special education (trainable, educable, or emotionally disturbed)	8
Summer school	3
Other	4
TOTAL	23

Table 4 shows the number of reductions or deletions of teaching or support positions as a result of the 1967 legislation. The reported deletions or reductions resulted in reduced service by personnel in the given program or support area.

TABLE 4—DISTRICTS REPORTING DELETION OR REDUCTION OF STAFF POSITIONS AS A RESULT OF THE 1967 LEGISLATION

Program or support service position	*No. of districts taking action*
Teacher positions (regular)	21
Teacher positions (specialists)	20
Teacher aides	16
Guidance counselors	14
Librarians	14
Educational media specialists	8
Psychologists	5
Secretarial staff	5
Nurses	4
Other	2
TOTAL	109

Eight teaching or support positions were initiated by boards of education as a result of the statute changes, and 19 programs were augmented by additional positions or service because of reduced amount of personnel-pupil contact load. The 19 positions can be subdivided as follows: teaching positions, both regular and specialist, 10; guidance counselor, 3; nurse, psychologist, and teacher aides, 2 each. School districts throughout the state made 84 separate decisions not to implement planned positions.

TEACHERS' SALARY SCHEDULES

In regard to salary schedule increases during the period studied, responses indicated no consistent pattern. Most responses fell into the following three categories: The legislation had no effect, caused slight improvement, or caused slight deterioration. Few districts indicated great improvement or great deterioration in salaries. Some emphasized that two-year agreements with local associations were in effect, and the legislation's impact would be felt in the coming year.

CLASS SIZE

The effect on class size was more apparent. No effect was indicated by 89 districts, but 38 districts (20 elementary and 18 secondary) stated that class size had increased. Only two elementary districts said class size had decreased.

Based on the data contained in this chapter, the Committee developed the groupings shown in Tables 5 and 6. Table 5 indicates the general effect of the legislation upon the overall aspects of the educational program, including staffing and class size. It might be generalized that some of the smaller districts found the law helpful, while larger districts found it limiting.

TABLE 5—ANALYSIS OF
GENERAL EFFECT OF 1967 LEGISLATION ON
RESPONDING SCHOOL DISTRICTS COVERED BY
SENATE BILL NUMBER 2
FOR THE SCHOOL YEARS 1967-68 AND 1968-69

	Extremely helpful	Generally helpful	Generally no effect	Generally limiting	Severely limiting	Statewide total
No. of districts	3	16	50	37	4	110
No. of state's students in responding affected districts	5,019	21,800	90,860	163,315	19,736	300,730
Percentage of state's students in responding affected districts	1.3%	5.8%	24.0%	43.3%	5.2%	79.6%

Table 6 is a comparison of responses of districts to questions asking for current effect of the 1967 legislation and their estimate of effect in subsequent years. In this case, district representatives reported anticipated effects; judgments were made by the Committee.

TABLE 6—SUMMARY OF CURRENT EFFECT OF 1967 LEGISLATION
AND ESTIMATES OF EFFECT IN SUBSEQUENT YEARS

	Extremely helpful	Generally helpful	Generally no effect	Generally limiting	Severely limiting	Total response
Reported current effect:						
No. of districts	3	16	50	37	4	110
Anticipated future effect:						
No. of districts	4	2	26	25	44	101*
No. of pupils in affected districts	4,203	1,711	25,142	89,634	156,952	277,642

* Not all districts responded to this question.

The Committee did not weigh heavily the projections of future effects of the legislation as shown in Table 6, since the figures are based only on estimations. The projections are consistent, however, with findings of actual effects as discussed in Chapter 4.

6. Analysis of State Support of Education in Arizona

The preceding chapters of this report have been devoted to acquainting the reader with those events in Arizona which led to the request for this study, with certain recognized principles of sound fiscal operation, with information about Arizona's school support level and tax structure, with details of the school finance portion of the 1967 legislation currently in dispute in Arizona, and with the reported effects of that legislation at the local school district level.

The purpose of this chapter is to tie those diverse elements together in an analysis of the various aspects of the state's fiscal problems as they relate to principles of educational finance. The Committee's analysis is based on the written and verbal testimony it has received over a period of several months, as well as on an examination of various statistical data and reports and the questionnaire returned by a majority of affected school districts. It is hoped that this chapter will assist Arizona in an assessment of its state support program.

ANALYSIS OF ARIZONA'S CONFORMITY WITH PRINCIPLES OF FINANCE*

Principle I

A sound state support program is based upon a satisfactory measurement of the educational needs of students in each school district.

In Arizona, educational responsibility of a district in the general state support program is measured by average daily attendance. As previously mentioned in the rationale supporting this principle, this measurement device is no longer deemed adequate by school finance authorities. It does not recognize that certain children require more services for an equal education than do others or that costs to educate the same number of children in different communities may differ. It further fails to recognize that a district may be penalized through events beyond its control, such as out-migration, fluctuations in local employment patterns, and

* The rationale for each of the principles in this chapter is presented in Chapter 3.

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occasional epidemics. The use of ADA is unsatisfactory under any circumstances and is especially so in Arizona because of the requirement that the estimates be the basis for the expenditures permitted under the so-called 6 percent limitation. With migration, mobility, and growth of the dimensions faced in Arizona, ADA is impossible to project accurately in many districts, and resultant underestimation or overestimation creates problems in budgeting and financing. (As was previously stated, in the school year 1968-69, only 84.2 percent of the cumulative total of pupils enrolled in the state actually were in average daily attendance. In contrast, Maine, the state with the highest rank, had 94.8 percent of its pupils in average daily attendance.[34])

It is suggested that a program be inaugurated which will measure the financial load the district must carry throughout the year regardless of daily attendance, and that pupils be weighted according to comparative cost of their education. The amount of state support should be granted based on the anticipated enrollment for the ensuing year, as judged by the State Board of Education or some similar body at the time teachers are employed. Since teachers are under contract to provide instruction for the anticipated children, no reduction in the amount of state support should be made if the enrollment is less. The same state agency should also be granted a contingency fund for use when in-migration or other reasons necessitate the employment of additional staff at any time during the school year. Districts should be granted authority to borrow funds and spend them for any emergency increase which may arise. Taxes should be authorized to pay such loans, with any unused money becoming part of the next year's budget. (It is noted that Arizona has a special county school reserve fund which may be used for certain specified purposes.)

An alternative system would be to base the state aid on the previous year's enrollment and then provide special grants on application from those districts which could demonstrate their rapid growth.

Principle II

A sound state support program measures the financial ability of each district in an equitable manner.

Arizona relies on the property tax base as a measure of the financial ability of the local school district for state support determination (beyond flat support payments), which at present seems to be the most equitable available base. Reports indicate that uniform assessment practices are in force. While testimony indicated some dissatisfaction with the present system of equalization of property values, the Committee received the general impression that within a very short period of time the procedures for equalizing property will be satisfactory.

Constant efforts to assure uniform assessment procedures and statewide equalization practices are important. The Committee suggests that Arizona, along with other states, study more equitable systems of measurement of the financial ability of local school districts.

One aspect of the state support program which does present a problem is the small allocation for equalization payments. The $11,470,000 expended in 1968-69 for the entire state in the equalization portion of the formula amounts to an average of slightly more than $30 per pupil in ADA. Since this represents only 7.5 percent of the total state level expenditure for schools through the formula, it is clear that the extent of equalization is small. Actually, the set dollar amount by which most of the state aid is distributed does not recognize that some districts have very high expenditures because of their specialized needs, while some have comparatively low expenditures. As a result of this flat, nonequalizing approach, financially depressed districts do not receive significantly higher assistance from the formula, and equal opportunity is not furthered.

Another area of concern is the planned difference in support for elementary and secondary education. While there may be a difference in the amount spent for education in these two levels, elementary districts with higher expenditures should not be penalized because of a set amount of state support that is lower than that set for secondary districts. The quality of education at the elementary level should be as high as that at the secondary level, regardless of the cost.

A related problem is teacher salaries at the elementary district level. In unified districts in Arizona, a portion of state aid is used for salaries, and there is no differential in these districts between salary scales for elementary and secondary teachers. The elementary districts, however, receive less state aid than the secondary districts, and as a result their salaries are generally not competitive with those of the unified and high school districts.

A sound state support program, with realistic figures set for state support computations, would alleviate many of the above problems, especially if it contained a heavy emphasis on equalization of educational costs.

Principle III

A sound state support program provides adequate incentives for each district to attain the most efficient organization possible.

Arizona has a large number of districts which have control of high schools only or elementary schools only, as well as a number of schools too small for effective operation. This situation is not in accord with the previously expressed concept that local control and quality education programs are best achieved by developing strong, well-organized, efficient administrative units. In the Committee's view, separate elementary and secondary school districts are inefficient in terms of the demand for a double system of school administrators with the corresponding additional cost to the districts and in terms of resulting inflexibility of allocation of funds within the district. (As stated under Principle II, salaries in the elementary districts are frequently lower because of a smaller amount of state support aid.)

The concept of large intermediate administrative units over several school districts might lend itself well to the Arizona situation. Such units would provide

more efficiently the common special services necessary in all school districts, such as cafeteria services, student records, school construction, social work and psychological counseling, instructional materials centers, purchasing, and school maintenance.

It is noted that the State Department of Public Instruction has recently published a comprehensive study of school district organization.[35] The Committee suggests that Arizona examine this study with a view to implementing its suggestions for more efficient structuring of the state's school districts. This will necessitate an overall state plan for school districts and provisions for incentives in the state support program that would result in the desired structure.

Principle IV

A sound state support program provides incentives to improve education.

It is difficult to identify any aspect of the Arizona state support program which encourages improvement or innovation in the educational program. Such improvement and innovations as have taken place have been the result of local district action, with no state financial encouragement. Without incentive for educational improvement, a major purpose of a state support program is stunted or lost.

It appears that the present system is in direct violation of the principle of state assistance to local districts attempting to develop innovative programs. As reported in Chapter 5, a total of 160 programs were abandoned or curtailed as a result of the 1967 "6 percent" budget limitation. A further 97 programs were not initiated.

It is suggested that the state assist in support of approved experimental or innovative programs to the same extent it supports other programs—that is, pay approximately 50 percent of the cost. In view of the increasing cost of educational programs, experimentation directed to the use of technology and other programs likely to result in increased productivity in education should be given high priority.

Principle V

A sound state support program recognizes that the state should share in the cost of all essential ancillary educational services which are provided by local school districts.

The Arizona program fails to recognize that an adequate and improving educational program is not feasible without state participation in the financing of all essential educational services. Arizona does not provide any state support for transportation, school building construction, debt service, or kindergarten education, and provides less for some aspects of special education than many other states. Appendix II cites the actual per pupil amounts for various services, which in some areas appear to be inadequate.

Arizona is one of the few states which penalizes its school districts by failure to provide state support for pupil transportation. From a practical point of view,

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many districts have no option but to provide transportation for many of their students at the expense of the local district, since no transportation charges may be made to students in Arizona. Other districts find it unnecessary to provide transportation. Thus, to put these districts in a comparable situation, the state should ideally pay the entire cost of transportation. If this is not presently feasible, some equitable program of sharing costs should be instituted.

School buildings are simply the largest piece of instructional equipment and should be treated as such. There is really no less justification for supporting capital outlay than current expenses. The only difference is that it is more difficult to develop an equitable plan for allocation of state support for capital outlay. While lack of state support for buildings has not been a major problem statewide in Arizona, there are three or four districts in which the lack of money for school facilities has resulted in major educational problems. Lack of state assistance for school buildings also may be responsible, at least in part, for the fact that some schools are on double sessions at the present time. Since a program of state support for capital outlay may not be possible immediately, a per pupil allowance for debt service may be a desirable alternative.

Kindergarten is recognized as an important aspect of education, nationally and in a number of Arizona districts. It is urged that this program be supported to the same extent as other educational programs. As an absolute minimum, all phases of special education should be supported by the state to at least the same degree as other programs are supported.

Principle VI

A sound state support program is flexible. Changing costs of education are recognized. The formula does not become outdated, necessitating periodical abrupt revisions.

The state support program lacks flexibility. The amount of money on which the state apportions the funds is a dollar amount which does not change with the changing cost of education. Thus, with each year of increasing educational costs due to inflation and needed improvements, the percent provided by the state is decreased and that provided by the local district is increased. As is evident from the questionnaire responses, many school district officials are making judgments as to which programs must be cut, curtailed, or simply not initiated because of insufficient funds. The Committee does not defend or condemn their judgments; it is clear that they must make judgments and that in many districts some programs must be cut as a result of the budget limitation. Written and verbal testimony indicates unequivocally the belief of many that the budget limitation is regressive and that it will have an increasingly limiting effect upon school district operation in nearly all aspects.

Another difficulty is that the percent of state support varies by years and requires repeated legislative action. After the legislature has acted to increase state support, it appears satisfactory for a time. With changing cost levels, the

state support program becomes less satisfactory each year; then an abrupt jump in state support is again necessary. A continuing, more gradual increase is definitely better for the schools and probably for the state also. Some of the more recently developed state formulas use the average increase in cost per pupil statewide as an adjustment factor in the determination of the state's share of school support. Arizona should consider this approach.

Principle VII

A sound state support program provides a level of support that is reasonably related to the fiscal capacity of the state.

Arizona's level of support in relation to the state's fiscal capacity is high when ability is measured by income and generally above average when measured by property values (as revealed in Table 1 of Chapter 4). However, as Arizona's capacity for growth has increased, the state's position in comparison to other states has declined. Almost every category of comparison shows that the expenditures for education in Arizona as a percent of the national average have been decreasing over the past 10 years.

It is suggested that attention be given to the relative rank of Arizona among the states and to the danger that this position may not be maintained under the present plan.

Principle VIII

A sound state support program utilizes sources of revenue that are productive and equitable.

Arizona utilizes all four of the major productive sources of tax revenue: income tax, sales tax, property tax, and taxation of oil, metal, and mineral resources. Brief study of reports and testimony received indicated some lack of balance in their use.

The entire tax system should be analyzed and a satisfactory balance established. Preliminary and limited analysis indicated that more revenue can be obtained from the taxation of mines and from the income tax. The sales tax also is established at a lower percent than in a number of other states. However, in terms of a balanced system, increased taxes of mines and income appear to be a high priority.

Principle IX

A sound state support program provides accountability—each unit of government determines how much of the cost of the program it will support.

Arizona conforms to the principle of accountability in part, inasmuch as the state legislature determines the amount of the cost of education it will support. However, the state does not conform fully, since local boards are not permitted to determine, without referendum and constraint, how much they will spend. As explained in Chapter 4, the property owners have the opportunity to vote to exceed the "6 percent" budget limitation, but in actuality the base which they approve

by ballot operates only for one year. This restriction on local board action violates that administrative principle which provides that a board responsible for a program should be able to determine what the program shall be and to be held accountable for it. It also violates the principle of local autonomy, which supports placing as much of the control of education as possible in the people through their locally elected representatives.

It is suggested that there are three possible alternatives which are in conformity with the principle of accountability. The one best suited to Arizona should be adopted for the state.

1. *Local control.* Local districts would have almost total control of education by setting up the program and financing it through local taxes. Until this decade, a few states allowed almost total local control of schools, with little or no state involvement in program or state support for education. A few states, primarily in New England, operated on this premise until recently.

2. *State-local partnership.* The state would determine the extent to which it would support education and would permit the local district to do the same. This approach recognizes the state's responsibility for education and equal educational opportunity for the students within its borders. However, under this plan, the state also has determined that education is a function of local school districts. The districts are allowed to set their own level of support for education, as long as a minimum program is maintained to the satisfaction of the state, which evaluates by accrediting school districts or mandating compliance to a minimum state course of study. This is the approach taken by many states. There are varying degrees of partnership in this approach. The Committee would favor a partnership in which the state would play a major rather than a minor role.

3. *State control.* The state controls education by determining the extent to which education shall be supported on the local and state levels. Local school districts either do not exist as separate entities or have little or no financing or program responsibilities. Hawaii operates such a state system, with the State Board of Education controlling curriculum and administration of all schools.

Because they do not provide for true accountability, Arizona and many other states do not fall into any of the above categories. The Arizona pattern has moved from the direction of local control (1 above) towards the state-local partnership (2 above), but also contains some of the elements of state control without local accountability (3 above).

In examining the above alternatives with Arizona's situation in mind, it appears that alternatives 1 and 3 are not desired by the citizens of the state. Arizona's history indicates a pattern of state-local partnership in education, which is recognized as fulfilling both state and local responsibility and as keeping the decisions of educational policy development and application at the local level.

The problems in Arizona's present statutes arise from the lack of parallel lines

of authority and responsibility. With the "6 percent" limitation in effect, the local school district is responsible for maintaining a level of education which is acceptable to the local citizens and to the state, but it does not have the authority to finance the desired local portion above a certain level without repeated votes of the property taxpayers.

If Arizona wishes to achieve a state-local partnership with state emphasis, while maintaining true accountability, then it could do so by (a) eliminating the budget limitation or (b) allowing the voters in a school district to establish whether or not the district will operate under the limitation law. The latter approach would provide more direct and speedier local accountability, since the citizens close to the local school district could make the determination to allow their elected representatives wide latitude or to limit their discretion and give some of the control to the state.

The accountability requirement is met under any of the above proposals. Whatever solution is chosen for Arizona should provide for the granting of authority commensurate with responsibility.

The analyses of Arizona's state support program for education contained in this chapter lend themselves to suggestions for remediation in certain areas. Some recommendations have been presented along with the analyses, and further suggestions will be made in the concluding chapter of the report.

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7. Summary of Conclusions and Recommendations

The three special sessions of the 1967 Arizona legislature were attempts to solve certain pressing problems related to the state's financial and educational responsibility. As with many basic concerns which must be treated by a legislative body, the problems had been developing for some time. The Committee believes that the concerns were genuine and that the laws which were passed represented sincere attempts which the legislature felt necessary for continued prudent progress of the state. Specifically these concerns, discussed in detail elsewhere in this report, were for—

1. A more equitable and proper assessment procedure which would provide relief for certain types of property, especially residential, and a statewide equity in assessment ratios for the different classifications of property.

2. A tax restructure which shifted the tax load from the local property tax to a broader base of statewide taxes, including increased income, cigarette, and liquor taxes.

3. A restriction on local property tax levies for schools.

The "6 percent" limitation revisions, which included a vote of the property owners, were an attempt to achieve the last goal. The Committee believes the legislature expected that this objective could be accomplished without adversely affecting the educational program.

From evaluation of the testimony and documentation, the Committee concludes that the three objectives were generally achieved. A genuine improvement in assessment equity and procedures is being implemented; tax limitation on school districts is in effect; and the broadened tax base represents a feasible approach to sound fiscal policy.

As the study progressed, the need for analysis of the third concern became apparent. At first, the Committee was aware of its surface aspects, namely the "6 percent" limitation and the accompanying public debate, but soon realized that the underlying issue was actually a question of accountability of school districts to the public and to the legislature. It seems obvious to the Committee that the

proponents of the change feel that this objective—greater accountability—also was achieved. In the opinion of its advocates, the limitation has augmented sound fiscal policy not only by limiting local property taxes, but also by providing greater accountability. The Committee's views on this subject are discussed below.

FINDINGS CONCERNING THE BUDGET LIMITATION

1. The limitation is having a definite adverse effect upon the education program and staffing in a majority of the school districts included under its provisions. Reports from 110 affected districts show that the law is limiting the offerings to pupils or is causing staff reduction and class size increases.

2. The factors most susceptible to "budget cutting," such as special programs and class size, are the first affected. Such decisions are not being made primarily upon their educational merit but upon the fiscal necessity of living within the law.

3. Certain factors cause districts to be affected differently by the law. Each district's rate of growth in ADA and its history of per pupil expenditure directly affects the percentage of limitation provided in the law. It is likely that changing population or wealth can cause one district to be affected quite differently from another district which might be similar in many ways. The inequity of such conditions is obvious.

4. The fixed dollar base has the effect of maintaining the expenditure gap between high per pupil expenditure districts and districts with low per pupil expenditures.

CONCLUSIONS ON STRUCTURE OF LIMITATION PROVISIONS

When the above findings are viewed in conjunction with the analysis provided in Chapter 6, the effects of the limitation must be considered negative. The statute is regressive when tested by statistical analysis, by comparison with sound finance principles, and by observation of the actual effect in the 1967-68 and 1968-69 school years. In addition, the Committee is concerned about the law's structure, which mandates that, at whatever level the allowable percentage of increase falls, it will decrease each year in most school districts because the limitation is set in dollar amounts. Projections on a district basis and analysis of the law's structure indicate to the Committee that the limitation will automatically become more severe each year instead of remaining at the same level.

It is the Committee's judgment, therefore, that the limitation legislation is internally defective, is inflexible, and has not accomplished what it nominally set out to do—namely, to provide a 6 percent limitation on an equitable basis, which can be exceeded only by a vote of the people. As a result, the limitation has caused clashes on issues relating to its internal structure, thereby diverting

attention from more central educational and fiscal concerns. If the legislature's basic concern was to devise a method of preventing the local property tax from being increased rapidly, then that goal was achieved, but in an inequitable and regressive manner.

BUDGET LIMITATION AND ACCOUNTABILITY

One of the major changes in the limitation statute in 1967 was replacement of the county boards of supervisors by the real property owners as the authority for school districts to exceed the budget limitation. The Committee believes that inclusion of a vote of the people reflected lack of trust on the part of the legislature in the elected representatives of the people (the school board members) to operate school districts efficiently, prudently, and effectively.

True accountability can be achieved in several ways. The most obvious is through election of school board members. Other methods include recall; authorization of voter approval requirements for expenditures, tax rates, bonds, or other fiscal matters; and structuring of financial responsibility, as discussed in Chapter 6. When examined on the basis of accountability, the "6 percent" limitation in its present form fails the test, primarily because the base approved by ballot is in effect for only one year, thereby causing the school board to share a responsibility for which it has no fiscal authority. As discussed in the preceding chapter, the establishment of educational programs on such a defective basis cannot be defended.

Additionally, the inequitable effects of the limitation (described in Chapter 4), which result from factors beyond the control of the local district, do not engender true accountability. The built-in restraint makes school boards wishing to exceed the limitation reluctant to submit a request to the voters for fear of having to repeat this process each year or of having to cut back new or existing programs if a levy should fail.

In the opinion of the Special Committee, if a purpose of the budget limitation was to render school officials more accountable to the legislature and the public, this goal was not satisfactorily achieved. A truer measure of accountability would be to allow the public to voice their confidence in their own elected representatives on the local school board by voting not to operate under the "6 percent" limitation.

RECOMMENDATIONS

A concern of the Arizona legislature appears to be the degree to which local school districts are accountable to the public and to the legislature. The method they have chosen to increase accountability is a limitation on the amount by which a local school board may annually increase its budget. For the reasons discussed above, the Special Committee does not believe that the limitation is the best method available.

LOCAL OPTIONS

As stated in this chapter, it is the Committee's opinion that accountability of of the school districts can best be achieved by modifying the public vote provision. The legislature should allow the voters in a school district to decide by majority vote whether or not their school district should be included under the budget limitation provision. If the removal of the limitation were approved, signifying public trust in school officials, the district would be exempt from yearly submission to the voters and could determine its budget based exclusively upon educational considerations, modified by the general statutory provisions for school finance.

If conditions changed, the voters of the district could petition for an election to once again place the school district under the limitation provision. Such a vote could be held upon signed petition of 10 percent of the registered voters.

This approach provides true accountability. To do less is to take from the voters their opportuniity to make meaningful local decisions.

GROSS INEQUITIES

If the "6 percent" limitation is continued, the Committee makes the following recommendations to ensure immediate correction of inequities which have arisen in its application.

1. Make the "6 percent" limitation a true 6 percent. Each district should be allowed to increase its budget by the same percentage rather than by the present fixed dollar amount which does not recognize the varying district needs and capacities.

2. Exclude certain programs from the budget limitation. Such items as transportation, fixed charges (social security, state retirement, and industrial insurance premiums), and self-supporting programs should be eliminated from consideration.

3. Allow any district which votes to exceed the 6 percent limitation to use the new expenditure per pupil base as the beginning point for determining the budget for the following year.

4. Provide means to avoid use of the current year's average daily attendance (ADA) estimate as the basis for determining state support.

5. Give districts the option to increase their budgets by an actual 6 percent or to increase 6 percent over the state average operational cost per pupil.

UNDERLYING PROBLEMS

Immediate implication of the recommendations just mentioned will do much to remove inequities and remove from the debate about schools the irrational dialogue which seems to have existed for more than two years. More essential,

however, is a direct, long-range, balanced attack on the underlying questions of sound fiscal responsibility and governmental accountability. If not undertaken, the types of problem with which this report has dealt will continue to recur in the state. The school finance history of Arizona and many other states is evidence enough that such planned preventive action is mandatory for improvement of quality in public school education.

The ironic aspect of the entire school finance pattern in Arizona is that an adequate amount of money per child statewide is already available. The real problem is the pattern of distribution of funds. Arizona, with its increased percentage of school support coming from the state level, is in a favorable position to better equalize school financing without a major increase in the share which public schools take from public resources. In addition, Arizona has an advantage which many states do not—time to plan and implement such improvements. The high effort of Arizona's citizens in financing schools has made this possible. However, to provide more equitably for the needs of Arizona's children, the state's leaders must initiate an immediate and thorough study of the total support formula structure.

The Committee recommends that the following suggestions be given careful and immediate consideration.

1. *Shortening Length of Term*

In the larger school districts, school board members serve for terms of five years. If improved accountability of elected representatives is necessary, such a term may be excessive. The Committee feels that shortening the term to perhaps three years, would provide the type of accountability which the legislature seems to be seeking. Such a legislative change would be a less complex manner of expressing concern for the actions of school districts than is provided in the budget limitation vote and would allow the citizens to express more readily their views of the actions of their elected representatives.

2. *Meaningful Local Involvement*

Concurrently, school officials and local education associations should develop positive programs to involve the electorate in local activities in a more meaningful way. The effort and effectiveness of district programs in this regard seems uneven. An involved public will provide a greater commitment to educationally sound programs and funding necessary to maintain and improve present programs and provide needed additions.

3. *Revision of the State Support Formula*

The legislature, through its education committees and in cooperation with the State Department of Public Instruction, school officials, citizens, and professional education associations, should undertake a full review of the total local and state involvement in educational finance, based upon the principles contained in Chapter 6. An attack upon the problems of the schools—deficiencies in

equalization, the absence of local authority commensurate with local responsibility, adequate measurement of needs of all students, lack of incentives for efficiency and innovation, and fiscal inflexibility—is urgent and should begin immediately. Such a study should be thorough, properly funded, and conducted by qualified fiscal and educational authorities. A positive cooperative approach to formula revision along sound and reasonable lines will be a service to the children of the state.

As the legislature initiates programs to provide for more equitable financing of education and a truer accountability of local school boards, accompanied by more meaningful involvement of citizens in school affairs, the committee believes that it will find that the local districts are functioning in a manner appropriate to their responsibility. The Committee hopes that the legislature will then remove the budget limitation altogether.

APPENDIX I
EFFECT OF 1967 LEGISLATION BY DISTRICT*

ELEMENTARY—Statewide

School District	Permissible Operational Budget 1968-69**	Permissible Percent Increase 1969-70***
Chloride #11	$1,599.[illegible]	1.98%
Sahuarita #20	1,427.40	2.22
Vail #20	1,213.54	2.62
Pomerene #64	1,207.45	2.63
Calabassas #3	1,173.65	2.71
San Simon #18	1,117.97	2.84
Catalina Foothills #16	985.70	3.22
Tubac #5	965.08	3.29
Mohave Valley #16	964.42	3.29
Continental #39	964.33	3.29
Ash Fork #31	963.49	3.30
Page #8	959.49	3.31
Aguila #63	956.19	3.32
Arlington #47	954.13	3.33
Humboldt #22	914.20	3.47
Seligman #40	903.98	3.52
Ganado #19	864.36	3.68
Palominas #49	859.61	3.70
Riverside #2	854.74	3.72
Sacaton #18	850.53	3.74
Toltec #22	845.40	3.76
Joseph City #2	842.18	3.77
Chinle #24	837.68	3.79
Kayenta #27	828.78	3.84
Verde #3	825.01	3.85
Higley #60	824.63	3.85
Tanque Verde #13	786.93	4.04
Bullhead City #15	780.22	4.07
Phoenix #1	774.88	4.10
Kenilworth #28	766.24	4.15
Marana #6	763.20	4.16
Keams Canyon #25	758.15	4.19

* Figures represent maximums allowable under the law without a vote of the real property owners.
** Figures supplied by Arizona State Department of Public Instruction.
*** Calculations by Arizona Education Association.

Wellton #24	$751.45	4.23%
Hyder #16	749.28	4.24
Tuba City #15	746.80	4.26
Cave Creek #93	741.29	4.29
Bowie #14	741.26	4.29
Peach Springs #8	738.56	4.30
Mohawk Valley #17	727.15	4.37
Palo Verde #49	716.52	4.44
Creighton #14	714.78	4.45
Madison #38	709.86	4.48
Chino Valley #51	701.46	4.53
Pendergast #92	700.36	4.54
Osborn #8	700.12	4.54
Stanfield #24	697.29	4.56
Miami #40	695.32	4.57
Bagdad #20	684.99	4.64
Picacho #33	682.98	4.66
Wilson #7	677.75	4.69
Payson #10	674.19	4.71
Lake Havasu #25	669.50	4.75
Solomonville #5	666.51	4.77
Williams #2	665.97	4.78
Puerco #18	665.64	4.78
Indian Oasis #40	660.41	4.81
Bisbee #2	657.72	4.84
Tucson #1	657.06	4.84
Grand Canyon #4	644.88	4.93
Ft. Thomas #7	642.42	4.95
Kingman #4	641.68	4.96
Morenci #18	639.10	4.97
Sunnyside #12	636.57	5.00
Balsz #31	634.43	5.01
Rice #20	633.55	5.02
J. O. Combs #44	627.52	5.07
Wickenburg #9	625.52	5.08
McNary #23	624.04	5.09
Queen Creek #95	623.35	5.10
Copperbelt #41	622.17	5.11
Cottonwood-Oak C. #6	622.08	5.11
Whiteriver #20	621.50	5.12
Buckeye #33	619.33	5.13
Tombstone #1	616.72	5.16
Wenden #19	616.41	5.16

Maricopa #20	$614.40	5.17%
Yuma #1	611.80	5.20
Casa Grande #4	609.13	5.22
Ray #3	609.08	5.22
Amphitheater #10	605.18	5.25
Parker #27	602.71	5.28
Crane #13	601.72	5.29
Deer Valley #97	596.92	5.33
Scottsdale #48	589.17	5.39
St. David #21	583.40	5.45
Kyrene #28	581.80	5.47
Fredonia #6	581.26	5.47
Flowing Wells #8	579.79	5.49
Gilbert #41	579.16	5.49
Prescott #1	576.30	5.52
Eager #3	576.16	5.52
Mayer #43	574.01	5.54
Tempe #3	573.04	5.54
Camp Verde #28	571.38	5.56
Alhambra #68	570.83	5.57
Florence #1	564.21	5.63
Naco #23	555.25	5.72
Murphy #21	555.05	5.72
Buena #68	554.96	5.74
Ajo #15	554.31	5.74
Mesa #4	554.27	5.74
Peoria #11	553.31	5.75
Chandler #80	550.96	5.78
Willcox #13	549.13	5.79
Mammoth #8	546.54	5.82
Holbrook #3	545.71	5.83
Clifton #3	544.29	5.84
Elfrida #12	544.12	5.84
Gila Bend #24	541.50	5.87
Snowflake #5	538.95	5.91
Globe #1	535.31	5.94
Oracle #2	534.30	5.95
St. Johns #1	531.55	5.98
Flagstaff #1	529.69	6.01
Litchfield #79	529.63	6.01
Coolidge #21	528.59	6.02
Paradise Valley #69	524.54	6.06
Roosevelt #66	523.32	6.08

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Patagonia #6	$522.19	6.09%
Pinetop-Lakeside #32	521.26	6.10
Isaac #5	519.33	6.12
Sitgreaves #33	518.66	6.13
Liberty #25	518.07	6.13
Wms. A.F.B. Accom. #510	508.39	6.25
Winslow #1	505.52	6.29
Gadsden #32	495.22	6.42
Washington #6	492.50	6.46
Bonita #16	488.80	6.51
Duncan #2	487.82	6.52
Glendale #40	487.17	6.52
Showlow #10	483.13	6.58
Superior #15	477.24	6.66
Pima #6	476.33	6.68
Tolleson #17	467.86	6.80
Avondale #44	465.74	6.83
Eloy #11	462.63	6.88
Douglas #27	460.39	6.91
Cartwright #83	457.35	6.95
Fowler #45	455.58	6.98
Nogales #1	451.07	7.05
Safford #1	439.66	7.24
Somerton #11	434.15	7.32
Union #62	521.38	7.55
Springerville #2	413.00	7.69
Dysart #89	408.33	7.79
Laveen #59	407.27	7.81
Thatcher #4	405.10	7.85
Littleton #65	393.69	8.09
Colorado City #14	303.34	10.49

HIGH SCHOOL—Statewide

School District	Permissible Operational Budget 1968-69	Permissible Percent Increase 1969-70
San Simon #70	$2,909.31	1.45%
Ash Fork #10	1,708.23	2.48
Sahaurita #130	1,644.73	2.57
Grand Canyon #40	1,628.77	2.60
Seligman #80	1,566.45	2.70
Mayer #45	1,319.17	3.21
Antelope Union #10	1,294.15	3.27
Apache Co. H. S. #90	1,281.38	3.30
Bagdad #25	1,264.39	3.35
North Yuma C. U. #20	1,226.80	3.45
Tombstone #80	1,206.33	3.51
Monument Valley #50	1,189.20	3.56
Gila Bend #203	1,139.81	3.72
Williams #60	1,126.22	3.76
Patagonia #20	1,126.07	3.76
Benson UHS #10	1,121.99	3.78
Marana #106	1,114.81	3.80
Tuba City #50	1,075.25	3.94
Payson #60	1,062.57	3.99
Bowie #30	1,047.08	4.04
Alchesay #30	1,042.54	4.06
Ft. Thomas #10	1,035.66	4.09
Florence #81	1,013.72	4.18
Maricopa #820	1,012.55	4.18
Mingus Union #60	1,002.33	4.23
Pearce UHS #90	957.01	4.43
Mohave County UHS #30	909.87	4.66
Hayden #80	908.88	4.66
Camp Verde #30	906.71	4.67
Buckeye Union #12	904.45	4.69
Willcox #95	8.93	4.72
Pinetop-Lakeside #75	0.62	4.81
St. David #60	41	4.94
Miami #70	6.85	4.95
Ray #83	847.05	5.00
Gilbert #204	837.33	5.0
Duncan #20	836.68	5.07
Tucson #101	836.07	5.07
Apache Junction #843	835.03	5.07

Casa Grande Union #82	$827.82	5.12%
Phoenix Union #210	826.94	5.13
Dysart #218	824.09	5.14
Douglas #50	822.28	5.15
Sunnyside #112	815.28	5.20
Yuma Union #25	809.04	5.24
Peoria #208	807.51	5.25
Coolidge #84	802.27	5.28
Agua Fria Union #216	795.65	5.33
Fredonia #30	795.00	5.33
Prescott #70	792.89	5.35
Amphitheater #104	786.56	5.39
Paradise Valley #217	781.81	5.42
Clifton #10	781.74	5.42
Thatcher #40	780.50	5.43
Wickenburg #215	779.59	5.43
Mesa #207	774.26	5.47
Flagstaff #20	762.09	5.56
Scottsdale #212	755.62	5.61
Tolleson Union #214	752.21	5.63
Bisbee #20	748.00	5.66
Tempe Union #213	747.55	5.67
Flowing Wells #108	744.14	5.69
Globe #90	743.10	5.70
Superior #815	725.36	5.84
Chandler #202	721.43	5.88
Buena #45	717.88	5.91
Nogales #10	712.23	5.95
Glendale Union #205	693.91	6.11
Morenci #30	693.35	6.11
Santa Cruz Valley #840	682.17	6.21
Ajo #103	681.51	6.22
Winslow #70	674.09	6.29
Pima #20	673.18	6.30
Snowflake UHS #60	670.61	6.32
Mammoth #88	665.67	6.37
Safford #30	579.77	7.32

APPENDIX II
STATE SUPPORT FORMULA,
ADAPTED FROM ARIZONA SCHOOL FINANCE HANDBOOK,
STATE DEPARTMENT OF PUBLIC INSTRUCTION

June 1969

State financial assistance to Arizona school districts assumes two basic forms: general state aid and special state aid.

General state aid consists of three funding plans: (1) a basic grant of $182.50 for every pupil in average daily attendance, (2) financial assistance to qualifying school districts, and (3) an equalization supplement to "poorer" school districts.

Special state aid provides specific dollar amounts to school districts for educating (1) homebound pupils, (2) handicapped pupils, (3) trainable retarded pupils, and (4) bilingual pupils.

In addition, state financial aid is available to school districts which educate deaf and blind pupils, children of employees of particular state institutions, and night school students.

A relatively small amount of money originating at the state level, derived from endowment earnings on the permanent school fund, is distributed to the 14 county school funds from which school districts receive their proportionate share.

GENERAL STATE AID

Under this caption, each of the three general State aid funding plans will be set forth and fully explained. The responsibilities of the State Department of Public Instruction, the County School Superintendents, and each school district in connection with these funds will be covered hereunder.

The Basic Grant

The keystone in Arizona's State aid program for educating its children is the basic grant funding plan calling for $182.50 to be apportioned each year to school districts—via the County School Funds—by the State Department of Public Instruction for each common and high school pupil (with some exceptions) in average daily attendance for the first six months of the year in which the apportionment is made. Pupils excluded from this form of State aid are students attending school at night, children of nonresident aliens, and wards of the United States for whom tuition is paid.

Before outlining how monies derived from this funding plan are distributed, the term *average daily attendance* must be defined. First, *daily attendance* (which is the basic factor in average daily attendance or ADA) means the following: days in which a pupil of the first, second, and third grade attends school a

minimum of 240 minutes including recreational periods; days in which a pupil of the fourth, fifth, or sixth grade attends school a minimum of 300 minutes, including recreational periods; days in which a pupil in the seventh or eighth grade attends school a minimum of 360 minutes, including recreational periods; days in which a high school pupil attends four graduation-qualifying courses, as defined by the State Board of Education. Partial attendance is counted in multiples of half days in a common school and by quarter days in a high school.

Average daily attendance is based on attendance records maintained at each school district and is the quotient of the aggregate number of pupils in daily attendance in a class, school, school district, or other grouping during a specified number of days school was in session (pupil days) divided by the number of days school was in session. For State aid apportionment purposes (and county aid apportionment as well), average daily attendance is defined as the average daily attendance of the first six months of a school year which is considered the first 24 weeks of that school year, including partial weeks and school holidays.

Arizona school districts must send periodic reports of pupil attendance at their schools to the State Department of Public Instruction Data Processing Center in Phoenix. On the basis of these reports, the average daily attendance of each school district for the first six months of the current school year is determined on or before March 15 and is used to compute district entitlements by multiplying this official ADA times $182.50.

Payment to school districts of these basic grant entitlements is made in six partial payments throughout the fiscal year, according to a bimonthly schedule. As provided in statute, five of these partial payments are based on an official estimate of ADA for the first six months of the following school year, with an adjusting sixth payment to be based on the actual ADA for the first six months of that year. This estimate must also be recorded, *without change*, in the proposed and adopted budgets for the following year.

Six bimonthly basic grant payments are sent to the County Treasurers for the credit of the 14 County School Funds which are administered by the County School Superintendents. From these County School Funds, the County School Superintendents make direct apportionments to the school districts of their respective counties—apportionments which include not only the State basic grant monies but also endowment earnings and National Forest Fees—which are also distributed by the State Department of Public Instruction, together with county aid (at the rate of $17.50 per ADA per year) and other nonstate revenues received in the county school fund that legally must be allocated to county schools. These other revenues, insofar as there may be any, are derived from: Auto Lieu tax, payments in lieu of county school taxes, excess county funds, penalties for transacting business without a license, balances on public auction sales when no owner can be found, Taylor Grazing Act money, public land lease money, fiscal year end balances in County School Fund and Special County School Reserve Fund, residual balances of lapsed school districts, dividends, sales, refunds, cancelled warrant recoveries,

federal lieu taxes not specifically allocated by law and any gratuity or bequest designated for county-wide school purposes.

Financial Assistance

The second form of general State aid, called financial assistance, benefits elementary school districts employing three or more teachers and all high school districts. This differs from the basic grant in that it is geared to two rates of supplementary aid: one for elementary pupils and the other for high school pupils.* Also it differs from the Basic Grant in that a school district must levy at least a ten cent maintenance and operation tax rate to be eligible to receive its benefits. A further difference consists in the fact that, under its provisions, a qualifying tax rate deduction is made from the gross school district entitlement before net entitlement is determined.

Formula steps for computing financial assistance	For common school districts	For high school districts	For common school districts not in high school districts *which pay tuition to high school districts*
1. Basic cost of education	$375 x ADA	$500 x ADA	$500 x ADA
2. Less: basic state, county aid	$200 x ADA	$200 x ADA	$200 x ADA
3. Equals: gross entitlement	$175 x ADA	$300 x ADA	$300 x ADA
4. Less: yield from qualifying tax rate	10c per $100 assessed valuation of district property	10c per $100 assessed valuation of district property	20c per $100 assessed valuation of district property
5. Equals: Net Annual Entitlement	$	$	$

In addition to furnishing an estimated entitlement for each school district, as has been mentioned, five bimonthly payments on this estimated entitlement will be made *directly* to each school district's account in its County Treasurer's office by the State Department of Public Instruction according to the regular bimonthly apportionment schedule. The sixth and final adjusting payment will be made

* The high school rate applies also to common school districts, not in high school districts which pay tuition to high school districts. Such districts are required to levy at least a twenty cent maintenance and operation tax levy to qualify for this form of State aid.

to each school district on the basis of its official entitlement which will be computed by the State Department of Public Instruction whenever the first six months' ADA figures become known.

State Equalization

The third form of general State aid to Arizona school districts is State equalization. This is apportioned to each school district on the basis of an entitlement determined by one of two formulas which are set forth in the law.

The first and usually controlling formula for computing state equalization for a school district involves the determination of two specified percentages and a percentage of these percentages. This resulting third percentage is then converted, by means of a table of specified values, to a dollar amount of State aid per ADA as defined for equalization purposes.

The second formula, which becomes the basis of a school district's entitlement if it results in a lesser amount than the first one, involves finding out what amount would be required to reduce the school district's maintenance and operation tax levy to a 10c levy.

SPECIAL STATE AID*

Special forms of state aid are far less complicated than are the three general forms described above.

State Aid for Homebound Pupils

Every school district which has homebound pupils capable of being educated, who are unable to attend regular classes due to illness, disease, accident, or physical handicap, is entitled to receive special State aid annually for such children at the rate of $100 per pupil in ADA.

State Aid for Handicapped Pupils

Every school district which has handicapped pupils, including emotionally disturbed, mentally retarded, and physically handicapped pupils as defined by statute, is entitled to receive special State aid for them annually at the rate of $190 per pupil in ADA, as well as special county aid at the rate of $10 per pupil in ADA.

State Aid for Deaf and Blind Students

Each school district which has resident deaf and blind pupils, not attending the Arizona School for the Deaf and the Blind, is entitled to annual state aid for them at the rate $700 per pupil in ADA.

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* Two types of special State aid, which do not provide significant assistance to most school districts, have been omitted from this description.

State Aid for Night School Students

Commencing in the fiscal year 1968-69, school districts educating night school students younger than 21 years of age, are entitled to receive $10 in special state aid for each course satisfactorily completed.

State Aid for Bilingual Pupils

For 1969-70, the legislature appropriated $100,000 to be distributed to districts conducting special education programs for bilingual pupils at the rate $25 for each eligible pupil, as defined by criteria established by the State Board of Education.

NOTES

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2. U. S. Department of Commerce, Bureau of the Census. *U. S. Census of Population: 1960*. National Education Association, Research Division. *Rankings of the States, 1969*. Research Report 1969—R1. Washington, D. C.: the Association, 1969. p. 11.
3. Figures by Phoenix and Tucson City Planning Departments.
4. *Sales Management: The Marketing Magazine*. "1969 Survey of Buying Power." 102: Section D, p. 4; June 10, 1969.
5. Valley National Bank, Research Department. *Arizona Statistical Review*. Twenty-fifth annual edition. September 1969. p. 4.
6. *Ibid*.
7. National Education Association, Research Division. *Rankings of the States, 1969*. Research Report 1969—R-1. Washington, D. C.: the Association, 1969. pp. 52-54.
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10. National Education Association, Research Division. *Rankings of the States, 1969*. Research Report 1969—R1. Washington, D. C.: the Association, 1969. pp. 47, 48.
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17. Based on National Education Association, Research Division. *Valuation of Property.* Washington, D. C.: the Association, July 1969. pp. 6, 15; and *Rankings of the States, 1969.* p. 7.
18. National Education Association, Research Division. *Rankings of the States, 1969.* Research Report 1969—R1. Washington, D. C.: the Association, 1969. p. 58.
19. *Ibid.,* p. 60.
20. Based on National Education Association, Research Division. *Valuation of Property.* Washington, D. C.: the Association, July 1969. pp. 6, 15; and *Rankings of the States, 1969.* p. 39.
21. Based on National Education Association, Research Division. *Valuation of Property.* Washington, D. C.: The Association, July 1969. pp. 6, 15; and *Rankings of the States, 1969.* p. 57.
22. Based on National Education Association, Research Division. *Valuation of Property.* Washington, D. C.: the Association, July 1969. pp. 6, 15; and *Rankings of the States, 1969.* p. 60.
23. National Education Association, Research Division. *Rankings of the States, 1969.* Research Report 1969—R-1. Washington, D. C.: the Association, 1969; and U. S. Department of Health, Education and Welfare, National Center for Educational Statistics. *Fall 1968 Statisti s of Public Schools.* Washington, D. C.: Government Printing Office, March 9. p. 21.
24. National Education Association, Research vision. *Rankings of the States, 1969.* Research Report 1969—R1. Washington, D. C.: the Associatic n, 1969. p. 57.
25. *Ibid.,* p. 59.
26. *Ibid.,* pp. 61, 25.
27. Based on *State Department of Public Instruction Annual Report, 1968-69.* Phoenix, Arizona. pp. 86-87.
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